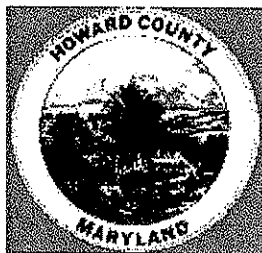


Internal Audit Report

**DEPARTMENT OF COUNTY ADMINISTRATION
CENTRAL FLEET OPERATIONS
AUTO PARTS USAGE REVIEW
NOVEMBER 2006**

Office of the County Auditor





OFFICE OF THE COUNTY AUDITOR

Ronald S. Weinstein, CPA
County Auditor
November 2006

The County Council and County Executive
of Howard County, Maryland

Pursuant to Section 212 of the Howard County Charter and Council Resolution 22-1985, we
have conducted a review of selected activities of the

DEPARTMENT OF COUNTY ADMINISTRATION CENTRAL FLEET OPERATIONS PARTS USAGE REVIEW

and our report is submitted herewith. The scope of our examination related specifically to perform a
review of auto Parts usage in the Central Operations Fund. The body of our report presents our
findings and recommendations.

The contents of this report have been reviewed with the Chief Administrative Officer and the
appropriate personnel in the Bureau of Central Services, and the Department of Finance. We wish to
express our gratitude to these individuals for the cooperation and assistance extended to us during
the course of this engagement.

A handwritten signature in black ink, appearing to read "Ronald S. Weinstein".

Ronald S. Weinstein, CPA
County Auditor

A handwritten signature in black ink, appearing to read "Dilawar Lakhani".

Dilawar Lakhani, CPA
Auditor-in-Charge

BACKGROUND AND SCOPE

The Bureau of Central Services operates the Central Operations Fund. The fund has two parts: Central Stores and Fleet Operations. Revenue from the Central Stores Division provides the following services: mail, messenger, motor pool, fuel dispensing, warehouse supplies, printing and reproduction. Revenue from Central Stores is obtained through charge-backs to the users.

The Central Fleet Operations Division is a service organization established to provide professional fleet management in support of the missions of County departments. It is responsible for the purchase, operation and maintenance of all County vehicles. The revenue to operate fleet operations is generated from charges to the user departments. The expenses are the salaries of the mechanics who maintain County vehicles, the cost of supplies and depreciation on all vehicles maintained by the Fund.

The Department of County Administration has prepared a Policies and Procedures Manual dated June 1998. According to the manual, Central Fleet is headed by the Chief, Office of the Central Services, who is responsible for the County-wide purchase, dispatch, assignment, maintenance and disposal of County owned vehicles and equipment. The Chief has primary responsibility for the County's fleet. Reporting to the Chief is the Administrative Services Officer, who has responsibility for day to day fleet administration activities. The Stores Manager coordinates stores activities throughout the County. The Fleet Maintenance Supervisors direct the day to day maintenance operations at their assigned maintenance facilities.

The scope of our audit was to review the accountability of parts usage as they are consumed during the maintenance of County vehicles. We reviewed a sample of the auto parts usage from the parts inventory maintained at the shops located at Mayfield, Dayton, Cooksville, Guilford, Utilities and Alpha Ridge.

The physical inventory count of the auto parts is conducted in the month of June at all the shops. The total value of the auto parts was \$680,257 for the year ended June 30, 2005 and \$627,612 for the year ended June 30, 2006. Based on our review of records and interviews with personnel, we made recommendations for changes in policies and procedures.

FINDINGS AND RECOMMENDATIONS

According to the Central Fleet Policies and Procedures Manual, Sections 12.2.5 and 12.2.6, the stores control technician and stores clerk are responsible for performing regular physical and cycle inventory counts and inventory data entry. In June each year, the stores manager with his staff members coordinates the physical counts of all the parts on hand in the shop. They compare those counts to the recorded quantity shown on the perpetual computer report. They then investigate the differences and do a recount. Upon the resolution of the differences, they prepare an adjustment form and input the counts in the "Fleet Maint" software program for the year end inventory values. The adjustment forms are approved by each shop supervisor. We observed the auto parts and fuel inventory taking process for the year ended June 30, 2006.

The Policies and Procedures Manual does not assign an inventory function to any staff member pertaining to usage of parts. We were informed that no individual at the shop does review or analyze parts issued during the year for repairs nor do they compare annual consumption. This function is necessary to determine the normal and reasonable usage of parts and control the loss, obsolescence, surplus and over stocking of inventory items. Staff members should also check repair orders on a sample basis for parts issued for repairs, especially for frequently used parts, expensive parts, and small but valuable parts prone to pilferage.

In addition, there should be independent checks on the inventory parts and records by the Administrative Services Officer where by he reconciles or verifies these recorded transactions carried out by the shop employees. Although there is some segregation of duties in the shops, the information of additions and deletions to the inventory is entered into the FleetMaint software program by the shop personnel. Since the shop personnel have complete control over the inventory records, additional verification by supervisory personnel, as stated above, is required to help maintain the integrity of the physical inventory and the related inventory records. We therefore, recommend that:

1. *The Administrative Services Officer should develop and perform reasonableness tests of the usage for various expensive and frequently used parts. The test checks should be documented and records be maintained by the Administrative Services Officer.*

Administration's Response:

The Administration concurs with this recommendation. Expensive parts that are frequently used throughout the fleet will be identified as high usage items by the Administrative Services Officer. These parts will be monitored and documents will be maintained and tracked for accountability through the fleet management system.

2. **The Administrative Services Officer should check the inventory parts periodically by visiting stores and conducting surprise sample counts. These sample counts should be documented and the results maintained by the Administrative Service Officer.**

Administration's Response:

The Administration concurs with this recommendation. Shops will be visited periodically by the Administrative Services Officer and surprise inventory counts will be performed.

We requested the Administrative Services Officer of the Central Fleet Division provide a sample list of parts for our review. He provided us with a listing from his database information for September 2005. We opened the data file and found "Sample Parts" file. The locations listed were Alpha Ridge, Cooksville, Dayton, Guilford, Mayfield, and Utilities.

The parts listed were batteries, filters and tires. We reviewed the list from each shop and found that the Fleet Operations Division maintains a software program (Fleet Maint. Inventory Management System) that handles various kinds of inventory transactions e.g. purchases and issues etc.

One of the weaknesses of this software program we noted is access to the data. The computer data can be changed from any shop and by any individual. This access flexibility causes a major internal control weakness since it is not possible to determine who changed or updated the quantity of the parts inventory. We therefore recommend that:

3. **The Division introduce controls to limit the number of individuals with access to data entry.**

Administration's Response:

Access to the current inventory system is controlled and limited to authorized fleet employee. Shop supervisors and parts room personnel are the only people who have authorization to make changes.

Auditor's Comment:

Although the access to the current inventory system is controlled and limited to authorized fleet employees, the access is not limited to the employees of a specific shop to that shop's records. This unlimited access allows for changes to any shop's inventory records by any employee regardless of their location.

4. **Identification of individual making changes to computer data be documented to allow for follow-up of inventory changes.**

Administration's Response:

The Administration concurs with this recommendation. The current inventory system does not automatically enter the user's initials when changes are made. However, personnel are instructed to enter their initials are made. Future inventory systems will have the automatic initials feature incorporated into its design.

We asked for information on the annual usage of high volume items such as batteries; filters; and tires. We were told that data on usage of individual parts is maintained but not formally reviewed or verified by the shop supervisors. They discuss the usage and other issues in their monthly meetings but the usage verification is not done or formally reviewed and documented by any shop supervisor or staff. The review is important to determine that a reasonable number of parts are issued for repairs and maintenance. We have recommended in our recommendation #2 above that the Administrative Services Officer take an independent sample check of inventory by visiting shops. Similarly, the shop supervisors should help to verify inventory usage by testing for unusual repairs or high usage of inventory parts during the year. These reviews could be done on a sample basis each year by vehicle number. We therefore recommend that:

5. *Each shop supervisor perform an annual vehicle review on a sample basis and identify the vehicles with high parts usage.*

Administration's Response:

Annual review of fleet vehicles for high parts usage is a current practice. Supervisors often identify vehicles with unusual high parts usage and discuss them during monthly fleet supervisor meetings.

6. *For vehicles identified in recommendation #5 above, the shop supervisor should examine the related work orders to determine the cause of these high, unusual or suspicious parts usage.*

Administration's Response:

It is through record reviews and discussion with mechanics that fleet supervisors track and identify vehicles with high parts usage. Once a vehicle is identified, information is shared within the fleet to determine the reason for the high usage and possible trend with other similar vehicles.

Auditor's Comment:

Relating to the responses to #5 and #6. Document the monthly meeting findings with a written list of high repair vehicles. That list should be reviewed before additional major repairs are made to a vehicle.

7. *Copies of these reviews and findings should be forwarded to the Administrative Services Officer for final review and records retention.*

Administration's Response:

All the records for vehicles are stored in the Fleet Management System database. These records can be retrieved for review at any time. When there's a potential problem, records are printed for review and discussion. However, the records are retained in the database.

Auditor's Comment:

We did not see any procedure or records indicating the database is used to isolate high repair cost vehicles. The Fleet Management System database should be used by the Administrative Services Officer and Shop Supervisors

to print out vehicles with high repairs costs to determine if they should be replaced.

The Central Fleet Policies and Procedures Manual was written in June 1998. This manual needs revision to update with existing procedures and eliminate the old and irrelevant information. We therefore recommend that:

8. *The Policies and Procedures Manual be updated with current policies and procedures.*

Administration's Response:

The Administration concurs with this recommendation. The policy will be updated to reflect many new changes and operational procedures including those regarding the new shop at Ellicott City.

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Username

Your Password

You are now logged on to the Web Content Management site

Choose Update web pages

Make sure you are the one in control of the page you need to update

Update New Pages

Update page content

Display page content

Display page (remember to refresh after changes)

Click where you want to be to edit

Tab after you edit the box

Back to web page control

Publish page to test site

Publish all the pages you are changing to the test site before you go further

Choose the page you changed

Upload to production

Upload*

OK*

WAIT !!! You will see the bar fill while the page is uploading.

* Do this for each page you are uploading.

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Choose *upload production docs*

Locate your file and pick *upload selected files*

WAIT

Wait until you see then choose *website main control*

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